

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Drinking Water Revolving Loan Fund
Department of Health and Hospitals,
Office of Public Health and
Department of Environmental Quality
State of Louisiana
Baton Rouge, Louisiana

May 28, 2003



Financial and Compliance Audit Division

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Albert J. Robinson, Jr., CPA

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**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2002
With Supplemental Information Schedules

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

May 28, 2003

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2002
With Supplemental Information Schedules

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OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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April 2, 2003

Independent Auditor's Report
on the Financial Statements

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health and Department of Environmental Quality - Drinking Water Revolving Loan Fund, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of management of the Drinking Water Revolving Loan Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the financial position and changes in net assets and cash flows of the Drinking Water Revolving Loan Fund. These statements are not intended to present fairly the financial position of the State of Louisiana, the Louisiana Department of Health and Hospitals, Office of Public Health or the Louisiana Department of Environmental Quality, and the changes in net assets and the cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Health and Hospitals, Office of Public Health and the Louisiana Department of Environmental Quality - Drinking Water Revolving Loan Fund as of June 30, 2002, and its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Audit Report, June 30, 2002

As discussed in note 1 to the financial statements, the Louisiana Department of Health and Hospitals, Office of Public Health and Department of Environmental Quality - Drinking Water Revolving Loan Fund adopted the provisions of the Government Accounting Standards Board Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, for the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2003, on our consideration of the Drinking Water Revolving Loan Fund's internal control over compliance with certain laws and regulations, and our tests of its compliance with those laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Louisiana Department of Health and Hospitals, Office of Public Health and Department of Environmental Quality - Drinking Water Revolving Loan Fund's financial statements. The accompanying supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Drinking Water Revolving Loan Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Management's discussion and analysis on pages 4 through 6 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large, stylized initial "G".

Grover C. Austin, CPA
First Assistant Legislative Auditor

LJD:MWB:PEP:ss

[DWRLF02]

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Drinking Water Revolving Loan Fund's financial performance presents a narrative overview and analysis of the fund's financial activities for the year ended June 30, 2002. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with prior year information. Please read this information in conjunction with the fund's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The Department of Health and Hospitals, Office of Public Health expended \$1,591,153 for set-aside activity during the fiscal year.
- Loans totaling \$25,984,770 were awarded during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of three sections: Management's *Discussion and Analysis* (this section), the fund financial statements (including the notes to the financial statements), and supplementary information.

Financial Statements

The financial statements present information for the fund, as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (page 6) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the fund's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (page 7) presents information showing how the fund's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, certain transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (page 8) presents information showing how the fund's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes a reconciliation of operating income (loss) to net assets provided (used) by operating activities as required by GASB 34.

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DEPARTMENT OF HEALTH AND HOSPITALS,
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STATE OF LOUISIANA
Management's Discussion and Analysis (Concluded)

FINANCIAL ANALYSIS OF THE FUND

Statement of Net Assets

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Current and other assets	\$4,734,862	\$5,637,620
Noncurrent assets	<u>24,548,514</u>	<u>9,872,174</u>
Total assets	<u>29,283,376</u>	<u>15,509,794</u>
 Total current liabilities	 <u>189,941</u>	 <u>148,092</u>
 Total net assets - unrestricted	 <u>\$29,093,435</u>	 <u>\$15,361,702</u>

Statement of Revenues, Expenses, and
Changes in Fund Net Assets

	<u>For the Year Ended</u>	
	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Operating revenues	\$2,453,612	\$1,595,763
Operating expenses	<u>1,591,153</u>	<u>1,012,718</u>
Operating income	<u>862,459</u>	<u>583,045</u>
Capital contributions	<u>12,869,274</u>	<u>5,289,879</u>
 Net increase in net assets	 <u>\$13,731,733</u>	 <u>\$5,872,924</u>

The fund's total revenues increased by \$857,849 (or 54%). Total set-aside expenses increased by \$578,435 (or 57%). The increases in both total revenues and set-aside expenses are the result of increases in loan and grant activity in the fund.

CONTACTING THE DRINKING WATER REVOLVING LOAN FUND

The financial report is designed to provide citizens, taxpayers, and customers with a general overview of the Drinking Water Revolving Loan Fund's finances and to show the fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mr. T. Jay Ray or Ms. Jennifer Meyer, Drinking Water Revolving Loan Fund Program, Office of Public Health, Department of Health and Hospitals.

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
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STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Net Assets, June 30, 2002

ASSETS

Current assets:

Cash in state treasury (note 2)	\$1,995,492
Receivables - due from others (note 3)	2,711,026
Prepayments	28,344
Total current assets	<u>4,734,862</u>

Noncurrent assets - loans receivable (note 4)	<u>24,548,514</u>
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Total assets	<u>\$29,283,376</u>
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LIABILITIES

Current liabilities:

Payables	\$161,597
Deferred revenue	28,344
Total	<u>189,941</u>

NET ASSETS

Unrestricted	<u>29,093,435</u>
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TOTAL NET ASSETS	<u><u>\$29,093,435</u></u>
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The accompanying notes are an integral part of this statement.

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
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STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Year Ended June 30, 2002

OPERATING REVENUES

Federal funds - set-aside programs	\$1,591,153
Interest earned on loans receivable	624,936
Interest earned on cash in state treasury	146,953
Administrative fees	90,570
Total operating revenues	<u>2,453,612</u>

OPERATING EXPENSES

Set-aside expenses (note 6)	<u>1,591,153</u>
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OPERATING INCOME

862,459

Capital contributions	<u>12,869,274</u>
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CHANGE IN NET ASSETS

13,731,733

TOTAL NET ASSETS AT BEGINNING OF YEAR
(restated) (note 5)

15,361,702

TOTAL NET ASSETS AT END OF YEAR

\$29,093,435

The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
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STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Year Ended June 30, 2002**

Cash flows from operating activities

Cash received from interest on loans	\$507,571
Cash received from interest on cash in state treasury	140,978
Cash received from administrative fees	73,561
Cash received from repayment of loan principal	329,000
Cash payments to borrowers	<u>(15,824,340)</u>
Net cash (used) by operating activities	<u>(14,773,230)</u>

Cash flows from capital and related financing activities

Contributed capital - Environmental Protection Agency	<u>11,775,882</u>
Net (decrease) in cash	(2,997,348)
Cash at beginning of the year	<u>4,992,840</u>
Cash at end of the year	<u><u>\$1,995,492</u></u>

**Reconciliation of operating income to net cash provided
(used) by operating activities:**

Operating income	\$862,459
Increase in accounts receivable	(153,854)
Increase in loans receivable	(15,495,340)
Increase in prepayments	(28,344)
Increase in accounts payable and accrued expenses	13,505
Increase in deferred revenue	<u>28,344</u>
Net cash (used) by operating activities	<u><u>(\$14,773,230)</u></u>

The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
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STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 2002

INTRODUCTION

The Louisiana Department of Health and Hospitals, Office of Public Health (DHH-OPH) is a department of the State of Louisiana. DHH-OPH was created in accordance with Louisiana Revised Statutes (R.S.) 36:251(c) and 258(d) as a part of the executive branch of government. DHH-OPH is charged with protection of the public health of residents of the State of Louisiana.

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with Title 30, Chapter 11 of the Louisiana Revised Statutes of 1950 as a part of the executive branch of government. DEQ is charged with environmental protection within the State of Louisiana.

The Drinking Water Revolving Loan Fund (DWRLF) program was established pursuant to the federal Safe Drinking Water Act Amendments of 1996 (SDWA). The DWRLF program provides financial assistance to both public and privately owned community water systems and nonprofit noncommunity water systems for projects eligible under the SDWA. The DWRLF program presently operates under R.S. 40:2821-2826. These statutes establish a drinking water revolving loan fund program capitalized by federal grants (Capitalization Grants for Drinking Water State Revolving Fund, CFDA 66.468), by state funds when required or available, and by any other funds generated by the operation of the drinking water revolving loan fund. The DWRLF program provides assistance through loans for infrastructure projects and other assistance in the form of set-aside activities for program administration, technical assistance, state program management, and source water protection. All efforts are directed toward improving drinking water quality by assisting systems in providing drinking water that meets established standards and that achieves the goals of the SDWA.

The DHH-OPH is responsible for the operations of the DWRLF program. The department coordinates the implementation and administration of the DWRLF program with DEQ. DHH-OPH is authorized to apply for and accept capitalization grants from the United States Environmental Protection Agency, to establish assistance priorities, to perform oversight and other related activities, and to provide financial administration of the set-aside accounts for the DWRLF program. DEQ administers the loan program and is authorized to provide financial administration of the loan accounts for the DWRLF program.

The DWRLF does not have any full-time employees. However, time spent on the DWRLF program by employees of DHH-OPH and DEQ is captured and the departments are subsequently reimbursed for their salaries and benefits as well as other operating expenses of the fund.

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STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying basic financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The board applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

These basic financial statements include the implementation of GASB Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and related standards. This new standard provides for significant changes in terminology, recognition of contributions in the Statement of Revenues, Expenses, and Changes in Fund Net Assets, inclusion of a management discussion and analysis as required supplementary information, and other changes.

B. REPORTING ENTITY

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a fund of the State of Louisiana that is administered by DHH-OPH and DEQ, both departments within state government. The DWRLF is part of the primary government of the State of Louisiana.

C. FUND ACCOUNTING

For the purposes of this report, the DWRLF uses a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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Notes to the Financial Statements (Continued)

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the DWRLF are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the Statement of Net Assets.

The DWRLF uses the accrual basis of accounting. Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the DWRLF are federal funds and interest earned on loans. Operating expenses include the set-aside expenses. The DWRLF has no revenues and expenses not meeting this definition and therefore has no nonoperating revenues and expenses.

E. BUDGETS AND BUDGETARY ACCOUNTING

The DWRLF is budgeted annually by the Louisiana Legislature. The set-aside activities are budgeted as part of the operations of DHH-OPH in the General Appropriations Act. The Ancillary Appropriations Act (Act 32 of the 2001 Regular Session as amended) authorized expenditures of \$34,000,000 for the loan program for fiscal year 2001-2002 and allows the fund to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

F. LOANS RECEIVABLE

The DWRLF is operated as a direct loan program. The program provides loans and other financial assistance to public water systems for the purpose of planning, constructing, and rehabilitating public water systems.

The program lends federal and state monies directly to public water systems. The federal share is 80% and requires a state matching share of 20%. Recycling of principal and interest repayments from borrowing water systems allows the program to operate in perpetuity thereby benefiting other water systems wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are

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STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

deposited directly to the program. Principal repayments can only be used to make additional loans to water systems. Interest earnings on investments and loans can also be used to make additional loans.

The loans made by the DWRLF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 3.45% for new water construction/water system rehabilitation projects.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated revenue source or demonstrate that there is adequate security for repayment of the loan. Collections of the revenue source dedicated to repayment of the loan must be equal to 133% of the loan amount for sales tax revenues or 125% for sewer user fees or ad valorem taxes. Each loan recipient is also required to set up a debt service reserve fund equal to 10% of the loan amount or one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

G. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net assets generally are classified in the following components:

Invested in capital assets, net of related debt - consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - consists of external constraints placed on net asset use by creditors, grantors, contributors or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - consists of all other net assets that are not included in the other categories previously mentioned.

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Notes to the Financial Statements (Continued)

H. CAPITAL CONTRIBUTIONS

The funds drawn for loans from the EPA capitalization grants authorized by the Safe Drinking Water Act Amendments of 1996 and the matching funds are recorded as capital contributions.

I. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

The fund has no capital assets or long-term obligations at June 30, 2002.

**J. COMPENSATED ABSENCES, PENSION
BENEFITS, AND POSTRETIREMENT
HEALTH CARE AND LIFE INSURANCE BENEFITS**

The fund has no full-time employees. The fund pays a portion of the salary of various employees of DHH-OPH and DEQ for administrative services. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the fund.

K. ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH

As reflected on Statement A, the DWRLF has cash totaling \$1,995,492 at June 30, 2002. All monies of the fund are deposited with the State Treasurer's Office. Cash balances are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States are included within the State of Louisiana's financial statements.

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Notes to the Financial Statements (Continued)

3. DUE FROM OTHERS

As shown on Statement A, the DWRLF has a total due from others of \$2,711,026. This total is comprised of the following:

Due from the federal government:	
Set-aside programs	\$161,596
Loans	1,481,796
Total due from federal government	<u>1,643,392</u>
Due from water systems	1,061,658
Due from State Treasury - interest	<u>5,976</u>
Total due from others	<u><u>\$2,711,026</u></u>

Of the \$1,061,658 due from water systems, \$819,000 is the current portion of the principal due, \$211,942 is loan interest, and \$30,716 is administrative fees on loans.

4. LOANS RECEIVABLE

The DWRLF makes loans to community water systems both privately and publicly owned and nonprofit noncommunity water systems for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. The effective interest rate on loans is 3.45% and must be repaid over 20 years starting two years after the closing date of the loan or one year after the project is completed, whichever occurs first. As of June 30, 2002, one project was completed.

Loans mature at various intervals through July 1, 2023. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year ending June 30:	
2003	\$819,000
2004	1,481,488
2005	1,447,521
2006	1,452,653
2007	1,375,267
Thereafter	<u>18,791,585</u>
Total loans receivable	<u><u>\$25,367,514</u></u>
Long-term receivable portion	<u><u>\$24,548,514</u></u>

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Notes to the Financial Statements (Continued)

Loans to Public Water Systems

As of June 30, 2002, the DWRLF had made loans to eleven public water systems as follows:

<u>Water System</u>	<u>Authorized Loan Amount</u>	<u>Balance of Loans Outstanding</u>
Town of Baldwin	\$1,250,000	\$1,072,637
Town of Church Point	2,500,000	2,408,523
Colyell Community Water Association	948,600	60,265
Culbertson Water System	669,000	74,021
Ward Two Water District of Livingston Parish	9,000,000	8,614,860
Waterworks District No. 1 of Desoto Parish	2,350,000	231,388
Town of Many	3,600,000	1,513,312
City of Oakdale	1,500,000	1,392,958
Village of Quitman	480,000	75,577
City of Shreveport	19,540,000	9,681,670
West Winnsboro Water System	747,100	242,303
Total	<u>\$42,584,700</u>	<u>\$25,367,514</u>

The DWRLF has been awarded four federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH). These grants are authorized by the Safe Drinking Water Act Amendments of 1996 and require matching funds from the state. The grants are used to fund infrastructure projects of \$61,961,520 to the state, of which \$23,309,559 has been drawn, \$19,104,948 for loans and \$4,204,611 (see note 6) for set-aside activities. The state has provided matching funds through the year ended June 30, 2002, of \$6,347,105. The following summarizes the grants awarded, amounts drawn of each grant as of the balance sheet date, and balances available for future loans and set-aside expenses:

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DEPARTMENT OF HEALTH AND HOSPITALS,
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STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

<u>Grant Source</u>	<u>Grant Amount</u>	<u>Cumulative Dollar Draws Set-Asides</u>	<u>Cumulative Dollar Draws Loans</u>	<u>Total Cumulative Dollars Drawn as of June 30, 2002</u>	<u>Remaining Grant Dollars Available as of June 30, 2002</u>
FS996968-01-2*	\$24,504,360	\$3,013,398	\$15,532,855	\$18,546,253	\$5,958,107
FS996968-02-2*	11,939,040	956,975	3,572,093	4,529,068	7,409,972
FS996968-03-0	12,513,240	234,238		234,238	12,279,002
FS996968-04-0	13,004,880				13,004,880
	<u>\$61,961,520</u>	<u>\$4,204,611</u>	<u>\$19,104,948</u>	<u>\$23,309,559</u>	<u>\$38,651,961</u>

*These amounts were amended by the EPA in state fiscal year 2003.

The state has provided its required matching share of federal grant awards through appropriations of General Fund and state capital outlay funds. Cash contributions from General Fund and capital outlay appropriations have totaled \$6,347,105. Matching contributions are as follows:

	<u>Cumulative State Match as of June 30, 2001</u>	<u>2002 Contribution</u>	<u>Cumulative State Match as of June 30, 2002</u>
State cash contribution	<u>\$6,347,105</u>	<u>NONE</u>	<u>\$6,347,105</u>

5. NET ASSETS RESTATED

The beginning net assets as reflected on Statement B have been restated to reflect the implementation of GASB Statement Number 34 and the effects of the change in accounting principle during fiscal year ended June 30, 2002:

Retained earnings, June 30, 2001	<u>\$1,297,127</u>
Contributed capital balance at June 30, 2001	<u>14,064,575</u>
Net assets at beginning of year-restated	<u><u>\$15,361,702</u></u>

LEGISLATIVE AUDITOR

DRINKING WATER REVOLVING LOAN FUND DEPARTMENT OF HEALTH AND HOSPITALS, OFFICE OF PUBLIC HEALTH AND DEPARTMENT OF ENVIRONMENTAL QUALITY STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

6. SET-ASIDE EXPENSES

A portion of the federal grant amounts awarded by the EPA are allocated to fund set-aside activities as follows:

- Four percent for administrative costs of operating the revolving loan program
- Two percent to provide technical assistance to small water systems
- Ten percent for state program management
- Fifteen percent of the 1997 grant award to fund source water protection implementation

The following schedule presents each grant, the amount allocated for set-aside activities from each grant, the cumulative expenses incurred and drawn for set-aside activities, and the amount available to be drawn from the EPA for future set-aside activities.

Grant Source	4% Amount From Grant for Administrative Cost	2% Amount From Grant for Small System Technical Assistance	10% Amount From Grant for State Program Management	15% Amount From Grant for Source Water Protection Implementation	Total Amount From Grants for Set-aside Costs	Costs Incurred	Amount Available for Draw From EPA for Set-aside Costs
FS996968-01-2*	\$700,403	\$168,100	\$1,396,523	\$2,042,030	\$4,307,056	\$3,013,398	\$1,293,658
FS996968-02-2*	397,968	161,100	994,920		1,553,988	956,975	597,013
FS996968-03-0	417,108	208,554	1,042,770		1,668,432	234,238	1,434,194
FS996968-04-0	433,496	216,748	1,083,740		1,733,984		1,733,984
Total	<u>\$1,948,975</u>	<u>\$754,502</u>	<u>\$4,517,953</u>	<u>\$2,042,030</u>	<u>\$9,263,460</u>	<u>\$4,204,611</u>	<u>\$5,058,849</u>

*These set-aside amounts were amended by the EPA in state fiscal year 2003.

Set-aside expenses are summarized as follows:

	2002	Prior Years	Total
Administration	\$275,553	\$919,231	\$1,194,784
Small system technical assistance	167,119	271,661	438,780
State programs	723,073	1,099,701	1,822,774
Source water implementation	425,408	322,865	748,273
Total	<u>\$1,591,153</u>	<u>\$2,613,458</u>	<u>\$4,204,611</u>

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements (Concluded)

7. LITIGATION AND CLAIMS

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The DWRLF has no lawsuits outstanding at June 30, 2002.

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
SUPPLEMENTARY INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2002**

The Drinking Water Revolving Loan Fund is considered one fund, which is comprised of a loan element and an administrative and state match element. The U.S. Environmental Protection Agency requested information on each of these elements. The supplementary information schedules 1 through 3 provide the details requested by the U.S. Environmental Protection Agency.

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Schedule of Net Assets by Account, June 30, 2002

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
ASSETS			
Current assets:			
Cash in state treasury	\$1,641,639	\$353,853	\$1,995,492
Receivables - due from others	2,679,250	31,776	2,711,026
Prepayments	28,344		28,344
Due from other funds		280,073	280,073
Total current assets	4,349,233	665,702	5,014,935
Noncurrent assets - loans receivable	24,548,514	NONE	24,548,514
Total assets	28,897,747	665,702	29,563,449
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	161,597		161,597
Deferred revenue	28,344		28,344
Due to other funds	280,073		280,073
Total liabilities	470,014	NONE	470,014
NET ASSETS			
Unrestricted	28,427,733	665,702	29,093,435
TOTAL NET ASSETS	\$28,427,733	\$665,702	\$29,093,435

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Revenues, Expenses, and
Changes in Fund Net Assets by Account
For the Year Ended June 30, 2002**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
OPERATING REVENUES			
Federal funds - set-aside programs	\$1,591,153		\$1,591,153
Interest earned on loans receivable	624,936		624,936
Interest earned on cash in state treasury	85,739	\$61,214	146,953
Administrative fees		90,570	90,570
Total operating revenues	2,301,828	151,784	2,453,612
OPERATING EXPENSES			
Set-aside expenses	1,591,153	NONE	1,591,153
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	710,675	151,784	862,459
Capital contributions	12,869,274		12,869,274
Transfers in	1,882,991	280,073	2,163,064
Transfers out	(280,073)	(1,882,991)	(2,163,064)
Total contributions and transfers	14,472,192	(1,602,918)	12,869,274
CHANGE IN NET ASSETS	15,182,867	(1,451,134)	13,731,733
TOTAL NET ASSETS AT BEGINNING OF YEAR (restated)	13,244,866	2,116,836	15,361,702
TOTAL NET ASSETS AT END OF YEAR	<u>\$28,427,733</u>	<u>\$665,702</u>	<u>\$29,093,435</u>

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Cash Flows by Account
For the Year Ended June 30, 2002**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Cash flows from operating activities			
Cash received from interest on loans	\$507,571		\$507,571
Cash received from interest on cash in state treasury	80,824	\$60,154	140,978
Cash received from administrative fees		73,561	73,561
Cash received from repayment of loan principal	329,000		329,000
Transfers in from Administrative and State Match Account	1,882,991		1,882,991
Transfers out to Loan Account		(1,882,991)	(1,882,991)
Cash received from allocations for set-aside programs	1,597,158		1,597,158
Reimbursements for payments for goods and services	(1,597,158)		(1,597,158)
Cash payments to borrowers	(15,824,340)		(15,824,340)
Net cash (used) by operating activities	<u>(13,023,954)</u>	<u>(1,749,276)</u>	<u>(14,773,230)</u>
Cash flows from capital and related financing activities			
Contributed capital - Environmental Protection Agency	<u>11,775,882</u>	<u>NONE</u>	<u>11,775,882</u>
Net (decrease) in cash	(1,248,072)	(1,749,276)	(2,997,348)
Cash at beginning of the year	<u>2,889,711</u>	<u>2,103,129</u>	<u>4,992,840</u>
Cash at end of the year	<u><u>\$1,641,639</u></u>	<u><u>\$353,853</u></u>	<u><u>\$1,995,492</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$710,675	\$151,784	\$862,459
Increase in accounts receivable	(135,785)	(18,069)	(153,854)
Increase in loans receivable	(15,495,340)		(15,495,340)
Increase in prepayments	(28,344)		(28,344)
Increase in due from Loan Account		(280,073)	(280,073)
Increase in due to Administrative and State Match Account	280,073		280,073
Increase in accounts payable and accrued expenses	13,505		13,505
Increase in deferred revenue	<u>28,344</u>		<u>28,344</u>
Net cash (used) by operating activities	<u><u>(\$14,626,872)</u></u>	<u><u>(\$146,358)</u></u>	<u><u>(\$14,773,230)</u></u>

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133**

The following pages contain a report on compliance with requirements applicable to the Capitalization Grants for Drinking Water Revolving Funds Program and on internal control over compliance with the requirements applicable to the program, as required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



OFFICE OF
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April 2, 2003

Report on Compliance With Requirements Applicable to the Capitalization
Grants for Drinking Water State Revolving Funds Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water State Revolving Loan Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the Capitalization Grants for the Drinking Water State Revolving Funds Program (CFDA 66.468) for the year ended June 30, 2002. Compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program is the responsibility of management of the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality. Our responsibility is to express an opinion on the Drinking Water Revolving Loan Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Environmental Protection Agency's *Clean Water State Revolving Fund* audit guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the program occurred. An audit includes examining, on a test basis, evidence about the Drinking Water Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Drinking Water Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water Revolving Loan Fund complied, in all material respects, with the requirements referred to previously that are applicable to its Capitalization Grants for Drinking Water State Revolving Funds Program for the year ended June 30, 2002.

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Compliance and Internal Control Report

April 2, 2003

Page 2

Internal Control Over Compliance

Management of the Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program. In planning and performing our audit, we considered the Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water Revolving Loan Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA 66.468), in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to this federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management of the Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin".

Grover C. Austin, CPA
First Assistant Legislative Auditor

LJD:MWB:PEP:ss

[DWRLF02]